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Puerto Rico
Mbia Inc

National Pegs PREPA Settlement Recoveries Above 80% Amid Ongoing Look at Strategic Alternatives Including Potential Sale

Wed 03/01/2023 13:58 PM

Relevant Documents:

[Earnings Release](#)

[10-K](#)

[8-K](#)

National Public Finance Guarantee, or National, a subsidiary of MBIA, is positioned for recoveries totaling more than 80% under the proposed Puerto Rico Electric Power Authority plan of adjustment as the monoline insurer continues to explore potential strategic opportunities for the company that could include a sale, MBIA/National management said during a fourth-quarter earnings call this morning.

The [PREPA plan support agreement](#) provides for the consensual resolution of the treatment of PREPA claims held by National and the settlement of National's participation in litigation related to such claims. The settlement provides that, upon the effective date of a plan of adjustment, National will receive in exchange for its bond and reimbursement claims newly issued PREPA secured revenue bonds together with certain fees and expense reimbursement payments, including an interim payment subject to regulatory approval by the Puerto Rico Energy Bureau. The settlement also provides National with the potential to receive additional consideration.

Asked whether National's PREPA recovery would amount to about 80 cents on the dollar, CFO Anthony McKiernan replied, "The recovery, if you put it all together, is a bit higher than what you've described, but it's in the ballpark."

National's settlement with PREPA and its potential recoveries has emerged as a hot-button item among PREPA bondholders and the unsecured creditors committee, which have both opposed the PREPA plan of debt adjustment. The bondholder groups and the UCC assert that National's projected recovery (of at least 83% on its claims, inclusive of reimbursements and fees) well exceeds the proposed 58% maximum recovery to litigating bondholders if they are successful in the lien challenge litigation.

During a [hearing](#) yesterday, Tuesday, Feb. 28, in which the Title III court approved for solicitation PREPA's disclosure statement for its plan over multiple objections, Martin Bienenstock of Proskauer Rose, on behalf of the oversight board, said that National's bond recovery is 71.56 %, not 83%, adding that the monoline has separate contract claims and will receive the additional recoveries from that.

PREPA is National's last remaining significant Puerto Rico exposure, at approximately \$710 million of gross par insured as of Dec. 31, 2022. As of the end of the fourth quarter, National had sold approximately 35% of its PREPA bankruptcy claims related to insurance claims paid on matured National-insured PREPA bonds. These sales monetized a portion of National's salvage assets and reduced potential volatility and ongoing risk of remediation around the PREPA credit, according to [MBIA's latest 10-K filing](#).

National's gross claims paid to date on its exposure to Puerto Rico since inception through the end of the fourth quarter on Dec. 31, 2022, totaled approximately \$2.9 billion, according to McKiernan. In the fourth quarter, National paid \$556 million in claims to fully satisfy outstanding Highways and Transportation Authority claims. During the current quarter, National paid gross claims in the aggregate of \$18 million in connection with PREPA's Jan. 1 default on scheduled debt service for National insured bonds.

A lower net loss for the fourth quarter was primarily due to lower losses and loss adjustment expense at National, primarily because of its Puerto Rico exposure. On the GAAP balance sheet, the loss reserve reflects the economics and transaction negotiated related to the PREPA settlement, according to McKiernan. The insurance loss recoverable on the asset side is the recovery on claims National has already paid on PREPA that also incorporates the negotiated settlement, the CFO added.

The 10-K provides an update on the status of the [complaint](#) filed by National in commonwealth court against the major banks that underwrote billions of Puerto Rico bond issues. National filed a motion for reconsideration of the Puerto Rico Supreme Court's denial of its petition for *certiorari*. The motion was rejected on Oct. 14, 2022, and on Oct. 19 National filed a renewed motion for reconsideration and a motion seeking review of that motion by the whole of the Puerto Rico Supreme Court. On Jan. 13, 2023, the court denied National's renewed motion for reconsideration.

MBIA CEO Bill Fallon [maintained](#) the position that PREPA's Title III bankruptcy case does not need to be resolved before a sale of the company can happen given that the rest of its defaulted Puerto Rico exposures have been restructured. "It's just the one credit and even on PREPA there's substantial progress," he said. "We don't believe that will stop a transaction, if we find the right transaction, from happening."

Fallon was asked, given what has been learned under a process being headed by [Barclays](#), whether it is more likely that there will be a sale transaction or a continued runoff.

"We've learned a lot so far in the process. We are in the middle of it. And I don't think, while we've learned a lot, it has swayed us in either direction," Fallon said. "As we've indicated all along, what we want to do is what's best for shareholders. So we continue to look at both those options and evaluate what we're learning during this process. And as I said, when we have something, we'll make sure that everyone knows it."

Fallon was asked what is keeping the process from being concluded given the progress on Puerto Rico and MBIA/National's "tremendous liquidity," among other factors. The caller characterized Assured Guaranty as a "layover for you guys" and asked "what facts aren't on the table."

"In any transaction, let's call it an acquisition, there's a tremendous amount of work that goes into that. There are many people that could be interested in the company. We evaluate all those and any company that is interested has a certain amount of due diligence that they like to do," Fallon said. "And I can't speak for other parties in terms of how quickly or how deliberately, they go through the process and therefore whether that is not necessarily meshing with your timeline for potential transaction."

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